

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-261-E
MARCH 31, 2010

IN RE:)	
South Carolina Electric & Gas Company)	
Request for Approval of Demand Side)	SETTLEMENT AGREEMENT
Management Plan Including a Demand Side)	
Management Rate Rider and Portfolio of)	
Energy Efficiency Programs)	
)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS"); Southern Environmental Law Center ("SELC"); South Carolina Coastal Conservation League ("SCCCL"); Frank Knapp, Jr. *pro se*; and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Public Service Commission of South Carolina ("Commission") opened this docket to consider SCE&G's Request for Approval of Demand Side Management ("DSM") Plan Including a Demand Side Management Rate Rider and Portfolio of Energy Efficiency Programs ("Application") filed on June 30, 2009. The Application requests that the Commission (i) consider the results of SCE&G's analysis of potential demand reduction and energy efficiency offerings ("programs"), (ii) review SCE&G's proposed suite of programs, and (iii) review an annual rider ("rider") to allow recovery of SCE&G's costs and lost net margin revenue associated with its programs along with appropriate incentives for investing in such programs;



WHEREAS, S.C. Code Ann. § 58-37-20 states:

The South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

WHEREAS, the Commission allowed for public comment and intervention in the above-captioned docket;

WHEREAS, SCCCL, SELC, Friends of the Earth (“FOE”), Frank Knapp, Jr. *pro se*, SCEUC, and CMC Steel (collectively “Intervenors”) made timely requests to intervene;

WHEREAS, ORS is automatically a party in all dockets opened by the Commission;

WHEREAS, SCE&G, ORS, SCEUC, CMC Steel, SELC, and SCCCL pre-filed testimony in this docket;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket. The remaining parties of record in the above-captioned proceeding are not parties to this Settlement Agreement;

WHEREAS, the Parties have engaged in discussions to determine if a Settlement Agreement would be in their best interest, and in the case of ORS, in the public interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by agreeing to request approval of the

Application as amended below and to other matters in the above-captioned case under the terms and conditions set forth below in this Settlement Agreement.

TESTIMONY AND OVERVIEW

1. The Parties agree to stipulate into the record before the Commission the direct or where applicable updated direct, rebuttal, and surrebuttal testimony and exhibits of the following eight (8) witnesses without objection, change, amendment or cross-examination with the exception of changes comparable to those that would be presented via an errata sheet or through a witness noting a correction consistent with this Settlement Agreement.

SCE&G witnesses:

- a. Felicia Howard
- b. Kenneth Jackson
- c. Scott Wilson
- d. David Pickles

ORS witnesses:

- e. Randy Gunn
- f. Christina Seale

SELC/SCCCL witnesses:

- g. Dr. William Steinhurst
- h. Thomas Lyle

The Parties agree that Christina Seale, Thomas Lyle, William Steinhurst, and Scott Wilson need not testify in person at the hearing unless requested by the Commission.

2. The Parties agree that the following witnesses may present to the Commission a brief overview of key terms of the Settlement Agreement and a statement of their support of the Settlement Agreement in the summaries of their direct and rebuttal testimony that they will provide at the hearing in this matter:

- a. Felicia Howard
- b. Kenneth Jackson
- c. David Pickles

3. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits identified above.

4. All Parties reserve the right to conduct redirect examination of their witnesses, as necessary, in order to respond to issues raised by the examination of their witnesses, if any, by non-Parties, or to any late-filed testimony.

5. The Parties agree to accept all audit adjustments as put forth by ORS witness Christina Seale.

6. The Parties agree to a mechanism that encourages the Company to promote energy savings by allowing the Company, via a rider, the ability to recover net lost revenues, recover program costs, and earn an incentive based on energy savings created by its programs.

7. The Parties agree this mechanism will apply to three annual review cycles provided that if the mechanism is not extended at the end of year 3, the rate rider will remain in effect solely to collect unamortized cost until such costs are exhausted.

8. In administering the mechanism, an annual proceeding (“the annual recovery proceeding” or “annual filing”) will be held where the programs, net lost revenues, program costs, incentive, net program benefits and other items as appropriate will be reviewed.

9. The Parties agree that the review period for the annual recovery proceedings will be the period beginning December 1st and ending twelve months later on November 30th. To the extent necessary, the month of November may be estimated and trued-up the following year.

10. The annual filings will occur under this Agreement as set forth in the chart below. The April 2010 Establishment and January 2011 filing will be based on estimates as actual data

will be unavailable. The remaining annual filings will include true-ups between estimated and actual data.

SCE&G Filing Date	Program Year	Annual Recovery Proceeding		
		Program Costs	Net Lost Revenues	Incentive
April 2010 Establishment		Actual costs through Oct. 2009.	Estimated through Nov. 2010	Estimated through Nov. 2010
Jan. 2011	1	Actual costs Nov. 2009 through Oct. 2010. Estimated costs for Nov. 2010.	Estimated through Nov. 2011	Estimated through Nov. 2011
Jan. 2012	2	True-up of Nov. 2010 costs. Actual program costs Dec. 2010 through Oct. 2011. Estimated costs for Nov. 2011.	Estimated through Nov. 2012. Actual data will be available for the 2010 Establishment period and year 1. A true-up will occur for the 2010 Establishment period and year 1.	Estimated through Nov. 2012. Actual data will be available for the 2010 Establishment and year 1. A true-up will occur for the 2010 Establishment period and year 1.
Jan. 2013	3	True-up of Nov. 2011 costs. Actual program costs Dec. 2011 through Oct. 2012. Estimated costs for Nov. 2012.	Estimated through Nov. 2013. Actual data will be available for year 2 and a true-up will occur.	Estimated through Nov. 2013. Actual data will be available for year 2 and a true-up will occur.
Jan. 2014		True-up of Nov. 2012 costs and any other true-up for year 3 if needed.	Actual data will be available for year 3 and a true-up will occur.	Actual data will be available for year 3 and a true-up will occur.

11. The mechanism and annual recovery proceeding is further described below.

PROGRAMS

12. The Parties agree to recommend that the Commission approve SCE&G's energy efficiency programs as proposed in the Company's application and described in its testimony as modified herein.

13. SCE&G agrees to present for review and comment by the Advisory Group provided for below a low-income program to be implemented in program year two or year three. In developing the low-income program for presentation, consideration will be given to low-income programs currently being administered by non-utility entities and funded by Federal dollars. The Parties agree that the low-income program(s) shall not supplant any existing low-income program available to the Company's customers but shall complement and build on any such program. The Parties agree and understand that a low-income program may not pass the Total Resource Cost Test and that such a result shall not prevent the implementation of the program.

14. As part of its portfolio of DSM programs, SCE&G also seeks approval of a program entitled "Residential Energy Information Display." Through this program the Company will provide customers with a discounted in-home display which will provide a variety of metrics, including the current price of energy being consumed by the consumer in their home, the cost of energy used in the current month and the variance in cost relative to an energy budget. After receiving Commission approval to implement this program and prior to mass marketing to all its residential customers, SCE&G plans to begin an initial implementation of this DSM program. Under the initial implementation, the Company will provide certain residential customers with an in-home display unit. In order to obtain additional information concerning this DSM program, SCE&G hereby agrees to expand its initial implementation to include additional customers who will be selected from the Company's small general service class of customers. Based upon the results of the initial implementation, SCE&G will consider in good faith the feasibility of renaming and expanding the program to include its small general service class of customers.

EVALUATION, MEASUREMENT AND VERIFICATION

15. The Parties agree that no later than thirty (30) days prior to the initial date of making programs available to the public, SCE&G will submit an evaluation, measurement and verification (“EM&V”) plan for its programs and measures to the Parties for review and comment. The EM&V plan will set forth industry-accepted program evaluation protocols to allow for an accurate determination of program costs and benefits, including a provision that evaluations be conducted in each program year, unless otherwise agreed upon by ORS and SCE&G, in order to ensure the sound design, delivery and continuous improvement of programs. The EM&V plan will reflect an industry-accepted term of measurement and evaluation for each program. The Parties will provide written comments concerning the EM&V plan to SCE&G within fifteen days of submission of the plan.

16. The Parties agree that the EM&V plan will provide for evaluation, measurement and verification to be conducted either: (1) by an independent third party evaluator selected by SCE&G after review with ORS or (2) at ORS’s election and with SCE&G’s agreement all or part of the evaluation may be conducted by ORS.

17. If the Parties are unable to agree regarding the provisions and terms of the EM&V plan, the Parties agree that any Party may petition the Commission for a hearing to present testimony regarding the EM&V plan so that the Commission may resolve any dispute and order the implementation of the EM&V plan in accordance with the provisions and terms as determined by the Commission.

18. EM&V results are due no later than six months after each reporting period, unless otherwise agreed upon by ORS and SCE&G.

PROGRAM COSTS

19. Pursuant to S.C. Code Ann. §58-37-20, SCE&G shall be allowed to recover its program costs by means of a rate rider which shall be reviewed, and adjusted in each annual recovery proceeding.

20. SCE&G shall be allowed to defer and amortize into the rate rider calculation all prudently incurred costs for the programs implemented in conformity with this Settlement Agreement and the terms of the Commission's order in this proceeding over five years with carrying costs at the Company's weighted average cost of capital.

NET LOST REVENUES

21. As contemplated by S.C. Code Ann. §58-37-20, net lost revenues will be calculated and presented for review and recovery through the rate rider during each annual recovery proceeding.

22. Net lost revenues are defined as retail revenue losses incurred as a result of lost retail sales due to SCE&G's new energy efficiency measures, net of fuel and other variable operation and maintenance costs.

23. Net lost revenues shall be calculated as follows:

Net Lost Revenues for Each Customer Class

Net Lost Revenues for Each Customer Class (\$) = Program-Related Energy Savings for that Class (kWh) x (average retail rate by customer class – average fuel component – variable operation and maintenance costs per customer class)

Total Net Lost Revenues

Total Net Lost Revenues (\$) = Summation of the Net Lost Revenues for Each Customer Class

24. Until EM&V results become available, net lost revenues will be based on projections in the annual filing. After EM&V results becomes available, projected net lost

revenues shall be included in the annual filing and trued-up for the time period since the last annual filing with actual net lost revenues.

25. Net lost revenues shall not include interest or carrying costs added to the calculation of the Company's annual rider.

26. Recovery through the rate rider of net lost revenues pertaining to a group of measures adopted by customers in prior program years shall cease upon the implementation of new retail electric rates in a general rate case proceeding to the extent that those new rates explicitly or implicitly allow the Company to recover the net lost revenues associated with the implementation of those measures in those prior periods.

27. In each annual filing, SCE&G shall set forth the calculations used to derive the projected and actual net lost revenues.

28. Net lost revenues shall not be recovered through the rate rider for research and development activities and programs whose primary purpose is that of promoting general awareness and education concerning energy efficiency and not the implementation of specific measures.

INCENTIVE

29. As authorized by S.C. Code Ann. §58-37-20, and unless otherwise noted in this Agreement or agreed to by the Parties, the rate rider shall include a shared savings incentive equal to 6% multiplied by the estimated net benefits of each energy efficiency program calculated using the Utility Cost Test. A shared savings incentive of 6% for the Company provides customers with 94% of the program net benefits. The incentive earned by the Company will be amortized over five years without interest or carrying costs and added to the calculation of the Company's annual rider.

30. Estimated net program benefits shall be calculated as follows:

cover the time period since the last annual filing. No interest or carrying costs are allowed for the incentive true-up.

34. In each annual filing, SCE&G shall indicate for each program for which it desires an incentive, the calculations used to derive the estimated and actual net program benefits.

35. Incentives shall not be recovered through the rate rider for programs related to research and development activities and programs with the primary purpose of promoting general awareness and education only and which do not involve the implementation of specific measures. The Commission shall determine whether new demand response programs may be eligible for an incentive and at what level.

POTENTIAL STUDY

36. The Parties agree that by November 1, 2010, SCE&G will prepare and present to ORS, SCCCL, SELC, Frank Knapp, and the Advisory Group for review and comment a study of the energy efficiency potential for SCE&G's service territory with a forecast review period that conforms to the Integrated Resource Plan requirements. Upon request, SCE&G agrees to provide to the signatories of this Settlement Agreement all supporting documentation, assumptions and analysis used in conducting its potential study. The Company will retain a consultant to prepare the study, which will include estimates of the following:

- a. **Technical potential** which is the theoretical maximum amount of energy use that could be displaced by efficiency, disregarding all non-engineering constraints such as cost-effectiveness and the willingness of end-users to adopt the efficiency measures. It is often estimated as a "snapshot" in time assuming immediate implementation of all technologically feasible energy saving measures, with additional efficiency opportunities assumed as they arise from activities such as new construction.

- b. **Economic potential** which refers to the subset of the technical potential that is economically cost-effective as compared to conventional supply-side energy resources. Both technical and economic potential are theoretical numbers that assume immediate implementation of efficiency measures, with no regard for the gradual “ramping up” process of real-life programs. In addition, they ignore market barriers to ensuring actual implementation of efficiency. Finally, they only consider the costs of efficiency measures themselves, ignoring any programmatic costs (e.g., marketing, analysis, administration) that would be necessary to capture them.
- c. **Achievable potential** which is the amount of energy use that efficiency can realistically be expected to displace assuming the most aggressive program scenario possible (e.g., providing end-users with payments for the entire incremental cost of more efficiency equipment). This is often referred to as maximum achievable potential. Achievable potential takes into account real-world barriers to convincing end-users to adopt efficiency measures, the non-measure costs of delivering programs (for administration, marketing, tracking systems, monitoring and evaluation, etc.), and the capability of programs and administrators to ramp up program activity over time.
- d. **Program potential** refers to the efficiency potential possible given specific program funding levels and designs. Often, program potential studies are referred to as “achievable” in contrast to “maximum achievable.” In effect, they estimate the achievable potential from a given set of programs and funding. Program potential studies can consider scenarios ranging from a

single program to a full portfolio of programs. A typical potential study may report a range of results based on different program funding levels.

The cost of the study shall be treated as a program cost subject to recovery under the rate rider. The Company further agrees to consider and evaluate in good faith the results of the potential study, after consultation with the Advisory Group as described below, in its ongoing review of programs and program modifications.

ADVISORY GROUP

37. SCE&G agrees to establish an energy efficiency advisory group (the “Advisory Group”), that at a minimum, will meet three times during the first year, and no less than twice per year thereafter over the three-year program term. During the first year, one of the three meetings will review the EM&V plan. The Company will prepare the data and analysis required to allow a meaningful and appropriate review of its DSM programs and will convene the Advisory Group to review and comment on the programs, and to discuss the other matters indicated below.

38. The Advisory Group shall include ORS and SCE&G, a representative from SELC/CCL, a representative from the South Carolina Small Business Chamber of Commerce as well as a representative from the low-income and industrial sectors. Members agree to participate in the Advisory Group in good faith consistent with mutually agreed-upon ground rules. SCE&G and ORS shall select the initial members of the Advisory Group except that SELC/CCL and the South Carolina Small Business Chamber of Commerce may appoint its own respective representative.

39. The role of the Advisory Group is to consider and make recommendations to SCE&G with respect to efficiency potential studies, new program ideas, modifications to existing programs, outreach and education programs and funding, and EM&V plans.

40. The Advisory Group will review and make recommendations to SCE&G with respect to periodic status reports on program progress, new program ideas and potential markets, modifications to existing programs, EM&V, and revisions or extensions of programs and incentives.

41. The Advisory Group will review and make recommendations to SCE&G with respect to forecasted participation levels in measures and programs and forecasted kW and kWh savings from measures and programs as those forecasts may be revised and updated from time to time.

42. The Company will provide information to the Advisory Group related to its existing and proposed DSM programs in a transparent manner. The Company agrees to prepare and present to the group information on its DSM activities including cost, participation and efficiency/savings data at individual program level detail. The Company will share information concerning both impact and process evaluation of programs, including the EM&V process.

43. At its discretion, the Company may require confidentiality agreements with members who wish to review confidential avoided cost data or any calculations that could be used to determine the avoided cost data. The parties acknowledge the competitive sensitivity of such information and the appropriateness of preventing its public disclosure.

44. Participation in the Advisory Group shall not preclude any party from participating in any utility commission proceedings. To ensure the free and open exchange of information, the parties agree that the advisory process would be considered to be in the nature of a confidential settlement discussion as to issues related to future DSM proceedings only to the extent that statements made or information obtained in the advisory process cannot be used as evidence in any future regulatory or judicial proceedings. However, any member of the Advisory Group who becomes a party in a regulatory or judicial proceeding may use information

51. The Parties agree that this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

52. ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2008). S.C. Code §58-4-10(B)(1) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State’s public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.”

53. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable resolution of the issues between them. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

54. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

55. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing his or her signature or authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[Signature pages to follow]

WE AGREE:

Representing and binding the South Carolina Office of Regulatory Staff

Shannon Bowyer Hudson

Nanette S. Edwards, Esquire

Shannon Bowyer Hudson, Esquire

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WE AGREE:

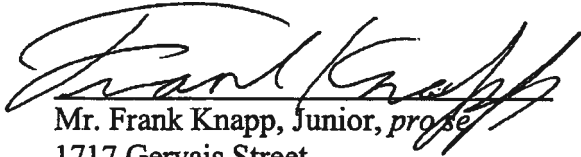
**Representing and binding the South Carolina Coastal Conservation League and the
Southern Environmental Law Center**

A handwritten signature in blue ink, reading "J. Blanding Holman", with a long horizontal flourish extending to the right.

J. Blanding Holman, Esquire
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I AGREE:

A handwritten signature in black ink, appearing to read "Frank Knapp", written over a horizontal line.

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WE AGREE:

Representing and binding South Carolina Electric & Gas Company



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Recovery of DSM Expenses, Shared Savings Incentive and Lost Net Margin Revenue

1. Overview

This Exhibit provides a description of how South Carolina Electric & Gas Company (“SCE&G” or the “Company”) proposes to recover its Demand Side Management (“DSM”) expenses, shared savings incentive and lost net margin revenue using a rate rider applicable to retail electric service. As described below, the rate rider will consist of a charge per kilowatt hour (“KWH”) and will be specifically calculated for each customer class. The rider will be set at a level sufficient to recover:

- a. DSM program expenses and overheads amortized over five years,
- b. A shared savings incentive of 6% amortized over five years, and
- c. Lost net margin revenue forecasted to occur as a result of the DSM programs reducing demand charges and megawatt hour (“MWH”) sales between each retail electric rate case.

In establishing the amount of revenue to be recovered under the rate rider, the amount of lost net margin revenue will be forecasted by customer class on an annual basis using data for market penetration for each DSM measure. Any difference between the prior year's forecasted amount and the amount calculated based on actual market penetration and/or Evaluation, Measurement and Verification (“EM&V”) results during the year will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period.

2. Annual Adjustment

The rates for each customer class will be recalculated and adjusted annually. Each year, on or about January 31st, the Company proposes to file the rate adjustments for each customer class with the Commission. The Company would not implement the proposed adjustments until at least three months after filing to allow for public comment and any review of the filing that the Commission might deem appropriate. The Company proposes that the initial review period run from the effective date of the rate rider proposed in this docket to November 30, 2010. Thereafter, the Company proposes an annual review period of December 1st through November 30th, provided that SCE&G must notify the Commission and ORS in writing prior to any change or adjustment in the review period.

3. The Regulatory Asset Account for DSM Expenses.

- a. DSM expenses shall include all costs of formulating, administering, publicizing, delivering, measuring, tracking and analyzing DSM programs, including administrative and general costs and overheads, legal and consulting costs, costs of advertising and promotion, training and recruitment costs, costs of incentives and payments to third parties, costs of resolving or settling claims and disputes, and other costs related to these programs. SCE&G will create a regulatory asset on its books for DSM expenses (“DSM Account”).
- b. As DSM expenses are recognized, they will be booked as a debit to the DSM Account.
- c. SCE&G will credit the DSM account monthly to reflect the 5-year amortization recovery of covered DSM expenses.

4. Program Cost, Lost Net Margin Revenue and Incentive Recovery

The DSM expenses, shared savings incentive and lost net margin revenue will be calculated and recovered under the rate rider as follows:

a. Calculation of Lost Net Margin Revenue

Lost net margin revenue will be calculated for each prospective review period based on the forecasted level of customer participation in each DSM measure. Lost net margin revenue will reflect the reduction in demand charges and MWH sales that are calculated to occur as a result of customer participation in each DSM measure exclusive of the reductions that would have happened in the absence of the measures. The reductions in MWH sales will be computed using the data contained in the then-current version of the South Carolina Measures Library Database (“Measures Database”)¹ or such successor data source as the Company may reasonably designate, supplemented as required where data not found in the database is needed to make the necessary calculations, all as updated or replaced by new EM&V results as they are generated. Margin revenue will equal electric revenue by rate schedule less fuel costs and variable operation and maintenance costs and will be computed on a per KWH basis.

Lost net margin revenue associated with the upcoming period will be calculated based on

¹ In 2008 Morgan Marketing Partners (“MMP”) was retained jointly by SCE&G, Duke Energy, Progress Energy and Santee Cooper to develop a “Measures Database” of technologies and building simulations that would provide estimates of energy and demand impacts related to numerous DSM measures. MMP had developed a similar DSM Measures Database for North Carolina. The scope of the work included four weather stations, ten commercial building types and sixteen configurations of new and existing residential homes. MMP and its subcontractors, Franklin Energy Services, Integral Analytics Inc. and Building Metrics Inc., developed the Measures Database and MMP provided it in its final form to SCE&G in 2009.

forecasted participation rates. At the end of each review period, the lost net margin revenue for that review period will be recalculated using actual market penetration data and updated demand and energy savings data generated as a result of new EM&V results. In making these recalculations, actual penetration rates will be converted to reductions in MWH sales using data contained in the applicable Measures Database or new or updated EM&V data. Any differences in the calculation of forecasted lost net margin revenue to actual will be reflected as an increase or decrease to the revenue required to be collected under the rate rider in the prospective review period. The Company will track the difference between actual lost revenue and forecasted lost revenue in a separate regulatory asset or liability account.

b. Resetting of Lost Net Margin Revenue

The amounts reflected in the rate rider for lost net margin revenue will be reset each time the Company implements new retail electric rates as a result of a general retail electric rate case. Upon implementation of the new retail electric rates, the charges to be collected under the rider will be recalculated to reflect the fact that under standard rate making methodologies the lost net contribution to margin revenue as of the end of the test period will be reflected in the new rates being set.

In recalculating the revenue requirement to be collected under the rider after new electric rates are ordered, the existing revenue requirement being collected under the rider will be reduced by the lost net margin revenue forecasted as of the close of the test year. This amount will be calculated to equal the participation rates for DSM measures at the close of the test period multiplied by the KWH savings per participant reflected in the applicable DSM Measures Database for that measure.

Additional lost net margin revenue will occur as new participants are enrolled in the DSM programs after the close of the test period. The additional lost net margin revenue will not be deducted from the revenue requirement to be recovered through the rider. Adjustments in the rider associated with the implementation of new retail rates will not change the schedule for annual reviews of the rider.

c. Calculation of the Amount to Be Recovered by the Rate Rider

The amount of DSM expenses, shared savings incentive and lost net margin revenue to be recovered through the rider shall be computed as follows.

- i. Amortization of DSM Regulatory Asset** - SCE&G will amortize, over five (5) years, the balance held in the DSM Account at the close of each review period.
- ii. Shared Saving Incentive** - SCE&G will include an incentive return computed under the terms of the Settlement Agreement between SCE&G, the Office of Regulatory Staff and other parties.
- iii. Lost Net Margin Revenue** - Lost net margin revenue for the review period, computed as described above, and including any adjustment for

the prior period, will be included in the revenue requirement to be recovered.

d. Allocation of Revenue Requirement

SCE&G will track participation in DSM programs by customer class. SCE&G will assign direct DSM program costs and lost net margin revenue accordingly. General and administrative costs and other indirect DSM costs will be allocated to customer classes in the same proportions that direct costs are allocated, unless the Company identifies a specific justification to do otherwise. SCE&G will also track receipts under the DSM rider by customer class. Rider adjustments will be made based on these allocations.

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ELECTRICITY

RIDER TO RETAIL RATES

DEMAND SIDE MANAGEMENT COMPONENT

(Page 1 of 2)

APPLICABILITY

Service supplied under the Company's retail electric rate schedules is subject to approved Demand Side Management (DSM) program cost adjustments. The rates shown below are applicable to and a part of the Company's South Carolina retail electric rate schedules and included in the monthly rate provision of the applicable schedule used in billing and shall therefore be added to customer's monthly bill statement:

DSM RATES BY CLASS (\$/kWh)

Customer Class	DSM Factors
Residential	0.00026
Small General Service	0.00032
Medium General Service	0.00011
Large General Service	0.00003

DERIVATION OF FACTORS

Demand Side Management costs to be recovered in an amount rounded to the nearest one-thousandth of a cent per kilowatt-hour, will be determined by the following formula:

$$A = D / S$$

A = Customer Class Specific DSM Program Costs Rate Adjustment per kilowatt-hour applied to base rates rounded to the nearest one-thousandth of a cent.

D = DSM revenue requirement for the period calculated as (C + L + R)

Where:

C = One year of Amortization Expense (based upon the balance of DSM Program Costs at the beginning of the annual review period) plus associated Carrying Costs (calculated using the Company's Weighted Average Cost of Capital)

L = Net Lost Revenues for each customer class based on forecasted retail kWh sales reductions attributable to DSM programs. Revenue lost would be calculated using the average rate per customer class less the class specific fuel component and variable O&M. The resulting factor would then be multiplied by the kWh sales lost for each class of customers. This amount will be "trued-up" for the actual impact on prior year sales.

R = One year of amortization of DSM Program Incentive to be calculated by multiplying the estimated Net Present Value Benefit of each energy efficiency program as determined by the Utility Cost Test times 6%.

S = Projected customer class specific sales, defined as retail kilowatt-hour sales from each class of customers for the current period, less sales from customers who have been approved for opt-out status.

The appropriate revenue-related tax factor is to be included in these calculations.

"OPT-OUT" PROVISION

1. Industrial customers as defined in Rate 23 are eligible to opt-out of DSM programs and costs.
2. Customers wishing to opt-out of DSM programs and recovery of DSM costs shall file a writing with the Company on a form provided by the Company representing that they have already implemented or will be implementing alternative DSM programs. Certifications shall be valid until withdrawn. If a Customer should choose to participate in one or more DSM programs for any account, then such Customer will not be permitted to opt-out of DSM programs and recovery of DSM costs for that account for a period of five years.

Effective Upon Approval by the
Public Service Commission of South Carolina

SOUTH CAROLINA ELECTRIC & GAS COMPANY

ELECTRICITY

RIDER TO RETAIL RATES**DEMAND SIDE MANAGEMENT COMPONENT**

(Page 2 of 2)

3. Customers who opt-out but later elect to participate in one of the Company's programs may do so upon application to the Company. If acceptable to the Company, the Customer may participate in the Company's programs, but may not apply to opt-out again for a period at least as long as the amortization period.

Since DSM charges are included and a part of retail rates, customers qualifying for the opt-out provision shall receive the following DSM Credit on their monthly bill statement:

$$\text{DSM Credit} = \text{Billed kWh times the applicable DSM Rate}^*$$

* The DSM Rate shall be as shown in the above table for the schedule applicable to Customer's monthly bill.

DEFINITIONS

1. Annual Review Period - The period of time between December 1 and November 30.
2. Amortization Period - The five-year period of time which the Company's DSM measures, program costs and incentive are deferred and amortized.
3. Customer Class - The Company's classification of customers based on similar energy usage characteristics. These are defined as follows:

Residential:

Rate 1 (RGC) – Good Cents Rate, Rate 2 – Low Use Residential Service, Rate 5 - Residential Service Time-of-Use, Rate 6 (RGCC) – Energy Saver / Conservation Rate, Rate 7 – Residential Service Time-Of-Use Demand, Rate 8 – Residential Service

Small General Service:

Rate 3 (M) – Municipal Power Service, Rate 9 – General Service, Rate 10 – Small Construction Service, Rate 11 – Irrigation Service, Rate 12 (C) – Church Service, Rate 13 (ML) – Municipal Service, Rate 14 – Farm Service, Rate 16 – General Service Time-Of-Use, Rate 22 (S) – School Service, Rate 28 – Small General Service Time-Of-Use Demand

Medium General Service:

Rate 19 – General Service Concurrent Demand Time-Of-Use, Rate 20 – Medium General Service, Rate 21 – General Service Time-Of-Use Demand, Rate 21A – Experimental Program - General Service Time-Of-Use Demand

Large General Service:

Rate 23 – Industrial Power Service, Rate 24 – Large General Service Time-Of-Use, Rate 27 - Large Power Service Real Time Pricing (Experimental)

SALES AND FRANCHISE TAX

To the above will be added any applicable sales tax, franchise fee or business license tax which may be assessed by any state or local governmental body.

PAYMENT TERMS

All bills are net and payable when rendered.

TERM OF CONTRACT

The contract terms will be the same as those incorporated in the rate tariff under which customer receives electric service.

GENERAL TERMS AND CONDITIONS

The Company's General Terms and Conditions are incorporated by reference and form a part of this rider.

Effective Upon Approval by the
Public Service Commission of South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-261-E

IN RE:

Application of South Carolina Electric & Gas)	
Company for the Establishment and Approval)	CERTIFICATE OF
of DSM Programs and Rate Rider)	SERVICE
)	
)	

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **SETTLEMENT AGREEMENT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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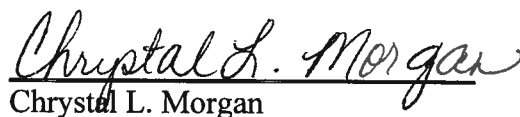
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Chrystal L. Morgan

March 31, 2010
Columbia, South Carolina